Versione italiana
English version

RELIEVA
INTERNATIONAL TAX AND PROPERTY PLANNING

e-Residency
marketplace
member

Estonia

Corporate taxation

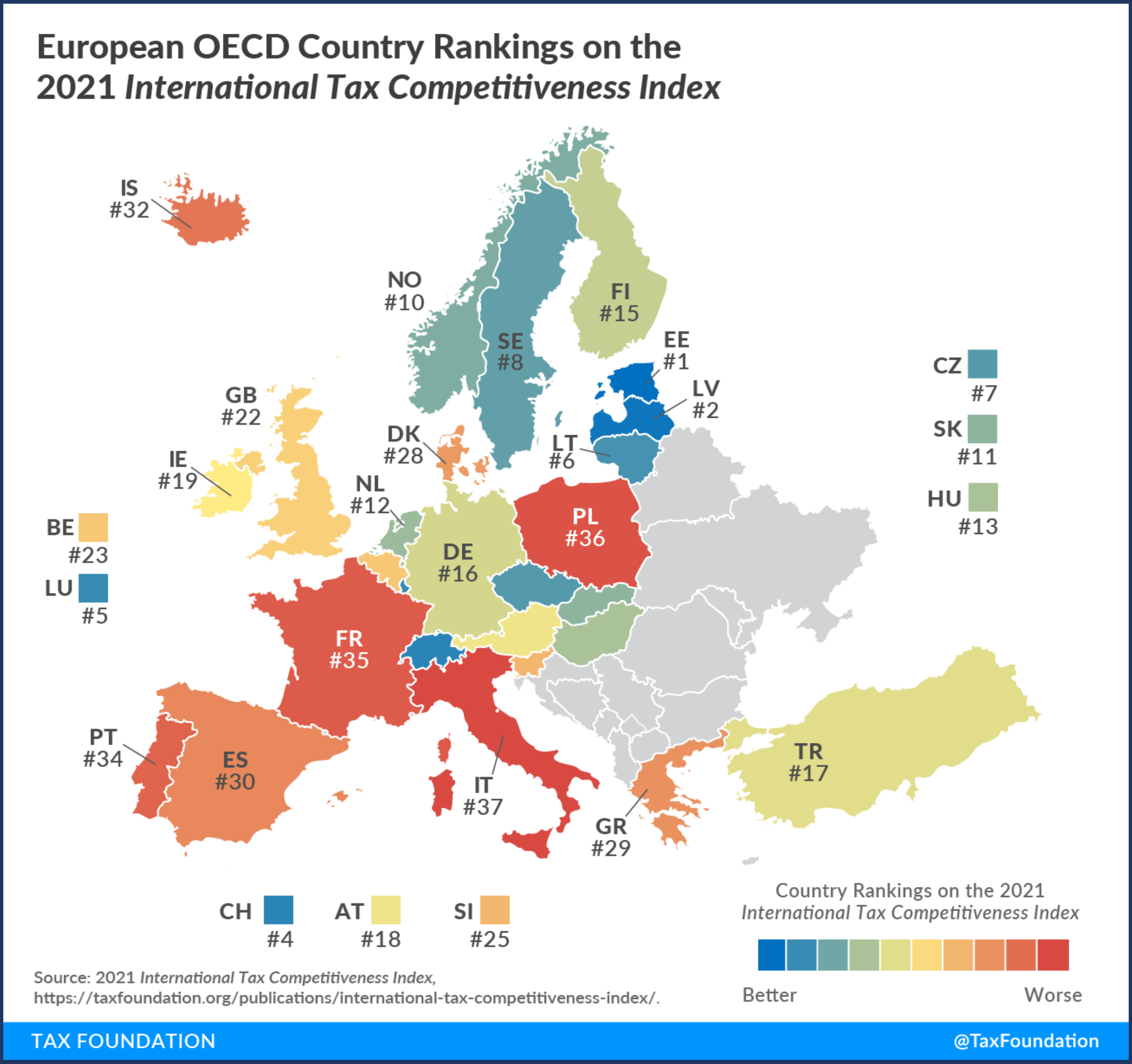
Estonian corporate income tax (CIT)

Estonia was the first country in Europe to introduce the corporate tax deferral system which provides for postponement of taxation of accounting profits; corporate profits are not taxed when they arise according to the common method of the "arising" or "accrual" basis (taxation by competence) but instead, corporate profits are taxed only when they are distributed to their shareholders according to the so called "remittance" basis (cash taxation). The Estonian corporate income tax (CIT) provides also for a 0% tax on reinvested profits. Distributed profits are taxed only once and

only at company level, moreover Individuals shareholders who receive dividends are exempt from personal income tax (PIT), it follows that in Estonia income of legal persons do not suffer any "economic double taxation" (where profits are taxed twice by the same jurisdiction first at corporate and then at personal level). It must be noted that the Estonian CIT is widely regarded as not a withholding tax applied on dividends, but a real corporate income tax (CIT) this for the purposes of both Double Tax Agreements (DTAs) and the European Union Parent-Subsidiary Directive which exempts from tax dividends distributed between associated companies residents of the European Union.

Until the Estonian company holds its profits by not distributing them, a 0% tax is payable on corporate accounting profits. The main advantage of tax deferral system lies in the fact that the distribution of profits can be postponed indefinitely without any time limit allowing the company to put gross profits to reserve, to reinvest them or to use them to acquire equity investments in subsidiaries, moreover by paying corporate tax later, the Estonian company benefits from the interest generated by holding its profits in corporate bank current accounts. Estonia is a country where it is possible to be shielded from taxation of repatriated profits from equity investments in foreign companies.

As long as the Estonian company retain their accounting profits without distributing them no corporate income tax liability arises. 20% is the standard CIT rate whereas a reduced rate of 14% is provided to dividends up to the average of dividends distributed over the past three years.



The "International Tax Competitiveness Index" report published by the OECD for 2021 ranks Estonia at the first place among OECD member countries for tax competitiveness moreover to date Estonia has signed over sixty bilateral international Double Taxation Agreements to avoid international double taxation of income and capital.

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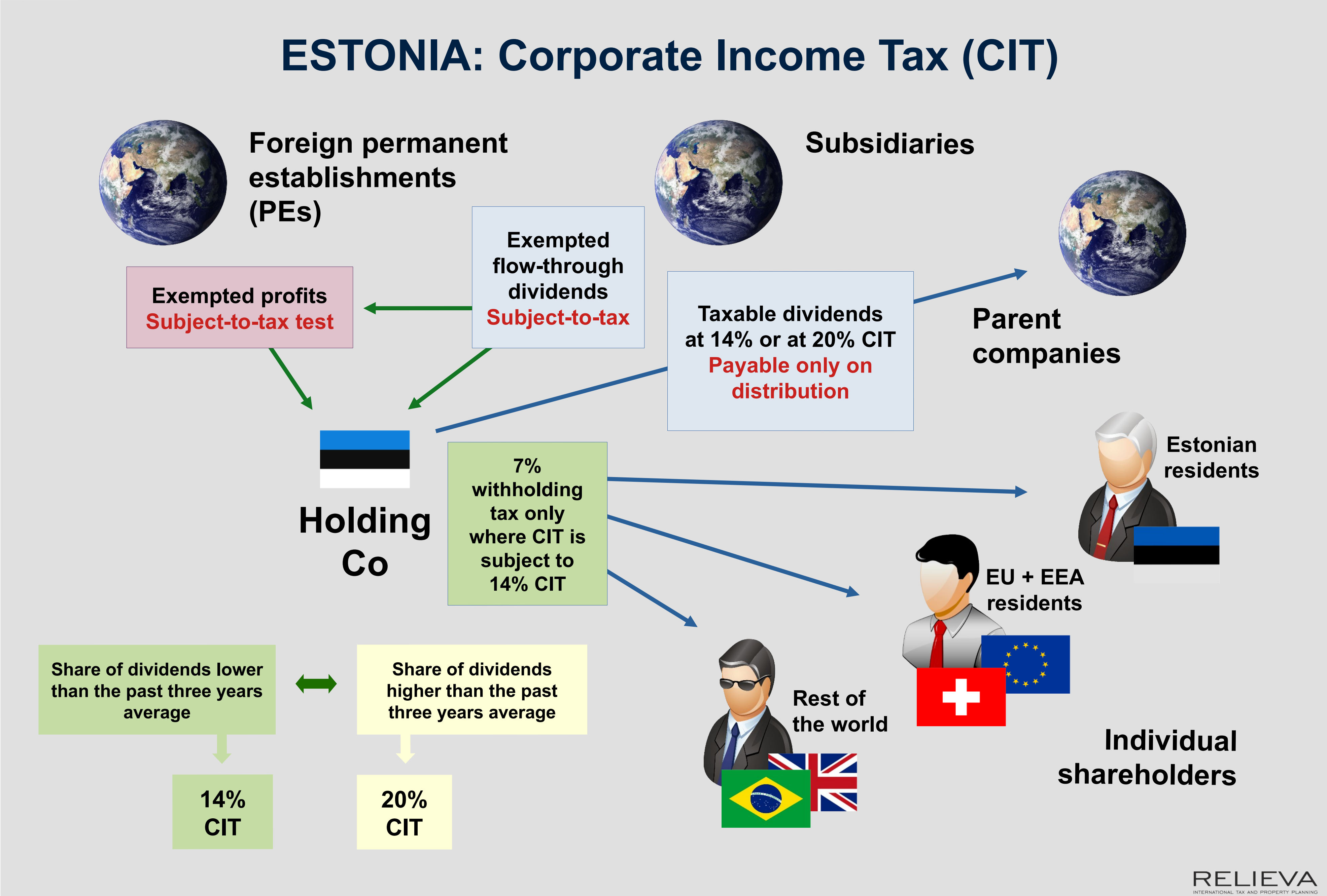
2021 *International Tax Competitiveness Index* Rankings

Country	Overall Rank	Overall Score	Corporate Tax Rank	Individual Taxes Rank	Consumption Taxes Rank	Property Taxes Rank	Cross-Border Tax Rules Rank
Estonia	1	100.0	3	1	9	1	15
Latvia	2	85.1	2	5	27	5	9
New Zealand	3	81.3	28	6	6	2	22
Switzerland	4	78.4	10	15	1	35	2
Luxembourg	5	76.5	25	20	4	13	5
Lithuania	6	76.5	4	7	24	7	23
Czech Republic	7	75.5	8	4	35	6	12
Sweden	8	72.9	9	18	16	8	14
Australia	9	71.3	29	17	7	4	24
Norway	10	70.6	11	13	18	15	11

Estonian holding regime

The tax deferral system combined with the participation exemption regime (PEX) as they are both applied in Estonia, makes the country an ideal place for setting up holding companies. The system of tax deferral until distribution of profits applies not only to "active income" which is the income generated by economic activity, but also to "passive income" as interest, royalties and dividends from other resident and foreign companies (not black-listed). Estonian PEX regime provides for total exemption from taxes on capital gains deriving from the sale of shareholdings in subsidiaries (capital gains), the availability of Estonian PEX regime is not contingent to any period minimum holding unlike the Latvian law which provides for a minimum of three years holding period. Dividends that the Estonian holding distributes to individuals are also exempt from tax as taxation is imposed only once and at corporate level even where such dividends come from another entity; the exemption is provided by the Estonian law even where those dividends are distributed by a foreign company (as long as non resident in a “Black List” country) as long as they have already been subject to corporate income tax in the source country according to the so called "subject-to-tax" rule which should be tested at any distribution. Another big plus in setting up a holding company in Estonia lays in the lower tax cost of its financing, in fact Estonian law does not provide any withholding tax on interest payments made by the company to other resident and non-resident companies or to non-resident natural persons, moreover in Estonia there is no limitation of the interests payable by a company as it is usually provided for by "under-capitalization" (thin-capitalization) regimes.

As also provided for in neighbouring Latvia, the corporate income tax (CIT) exemption regime of dividends distributed by other subsidiaries is commonly known as “flow-through dividends” regime or “dividends of transit". As said, in order to benefit from this advantageous scheme Estonian law requires that the profits from which such dividends are generated have been "subject to tax" at the level of the company distributing them in the country of residence (as long as not black-listed) or alternatively that CIT has already been paid by another Estonian distributing company.


ESTONIA: Corporate Income Tax (CIT)
Foreign permanent establishments (PEs)
Subsidiaries
Parent companies
Exempted profits
Subject-to-tax test
Exempted flow-through dividends
Subject-to-tax
Taxable dividends at 14% or at 20% CIT
Payable only on distribution
Holding Co
7% withholding tax only where CIT is subject to 14% CIT
Estonian residents
EU + EEA residents
Rest of the world
Individual shareholders
Share of dividends lower than the past three years average
14% CIT
Share of dividends higher than the past three years average
20% CIT
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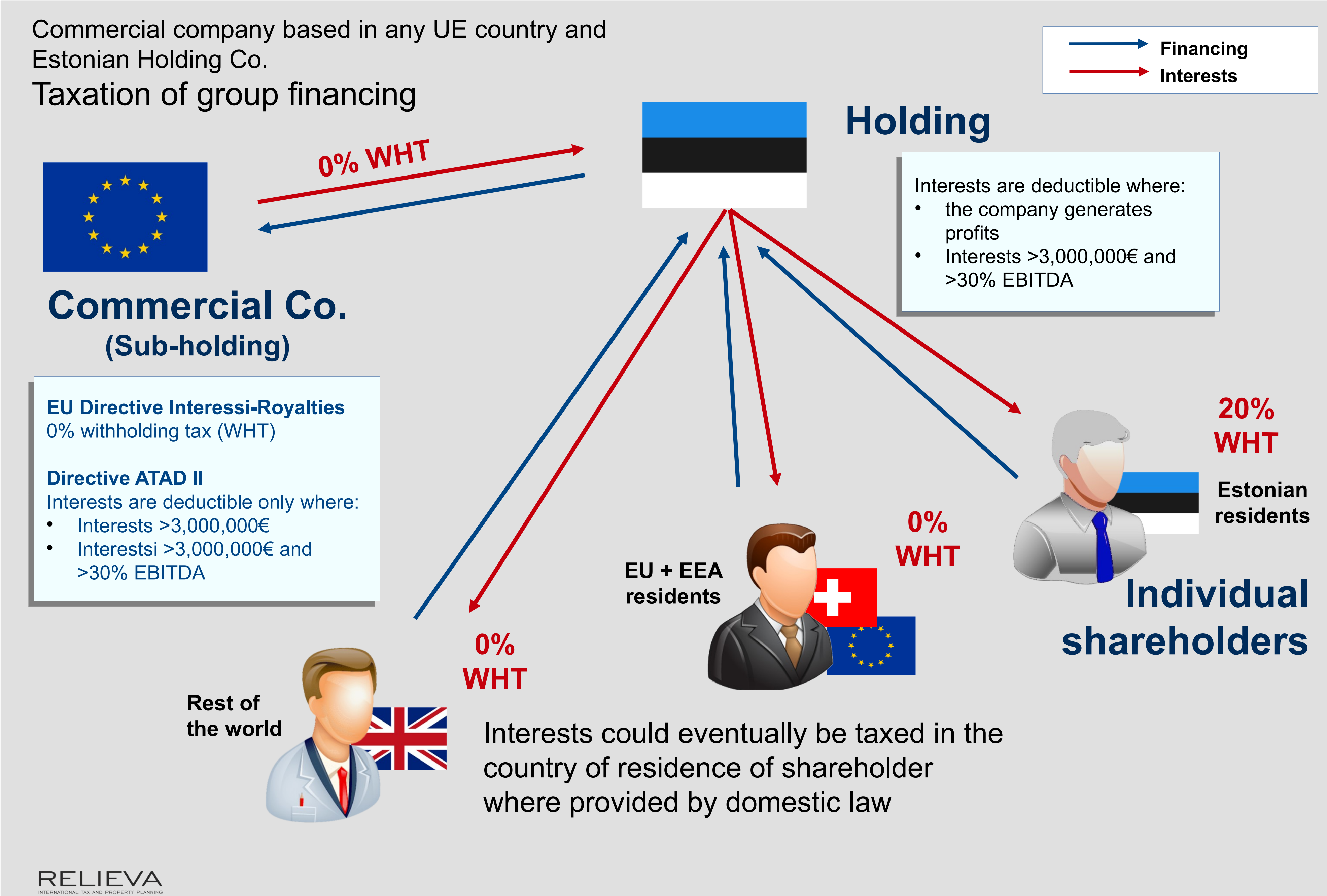

Commercial company based in any UE country and
Estonian Holding Co.
Taxation of group financing
Financing
Interests
0% WHT
Holding
Interests are deductible where:
• the company generates profits
• Interests >3,000,000€ and >30% EBITDA
Commercial Co.
(Sub-holding)
EU Directive Interessi-Royalties
0% withholding tax (WHT)
Directive ATAD II
Interests are deductible only where:
• Interests >3,000,000€
• Interestsi >3,000,000€ and >30% EBITDA
20% WHT
Estonian residents
0% WHT
EU + EEA residents
Individual shareholders
0% WHT
Rest of the world
Interests could eventually be taxed in the country of residence of shareholder where provided by domestic law
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Company governance

- The Estonian company must appoint a Board with administrative and legal representation duties
- The Board may consist of one or more directors. Directors can only be natural persons
- Directors (Board members) may or may not be shareholders.
- The founding members can be both resident and non-resident individuals and legal entities.
- At least 50% of the Board must be resident in the European Union, or in an EEA country (Switzerland, Liechtenstein, Norway, Iceland).
- The accounting is made monthly, but it is provided only for operating companies (and not for holding companies) with a VAT number or in case the company makes use of employees.
- An auditor is required only for entities with share capital exceeding € 25,000 or when two of the following conditions are simultaneously met:
  - annual turnover exceeding approximately EUR 650 000;
  - the balance sheet total exceeds EUR 330 000;
  - the number of employees is 10 or more.
- Where not provided for by the articles of association, a supervisory board must be set only where the share capital exceeds 25,000 euros and it shall consist of no less than three competent members, who need not be shareholders.

REPUBLIC OF ESTONIA
E-RESIDENCY

In 2014, Estonia was the first country to introduce e-residency as a digital identity tool aimed at the remote control and utilization of public services.

The e-Residency allows entrepreneurs to prepare and submit legally binding documents and to completely manage their Estonian company from anywhere in the world using their tablet or PC thanks to a kit issued by the Estonian government. In order to request and to obtain the e-residency a user must fill an application, this can be done easily online and within a few week the Estonian Authorities notify their possible approval or denial. Via the e-residency toolkit it is possible to establish a new company or a partnership and to perform many other duties of company directors and legal representatives without the need of a notarial deed.

Since its launch in 2014, nearly 80,000 individuals from all over the world have become Estonian e-residents. RELIEVA is among the selected international tax advisors for the e-Residency program and member of the e-Residency Marketplace.

The new *Guide to the e-Residency* program is now available on our corporate website www.relieva.eu and downloadable in .pdf.

1° OECD country for tax effectiveness

0% Taxation of dividends distributed by subsidiaries, including foreign ones, to recipient shareholders resident in Estonia

0% Taxation of non-distriburted or reinvested profits

0% Withholding tax on dividends distributed to resident and non-resident individual shareholders

0% Withholding tax on interests payed to non-resident corporate and individual persons

100% Participation exemption (PEX) on capital gains

16,3% Corporate income tax on distributions equal or lower to the average of distributions made in the past three years

REPUBLIC OF ESTONIA
E-RESIDENCY

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